

Minutes for January 15, 1959

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>(M)</u>	<u> </u>
Gov. Szymczak	<u> </u>	x <u> </u>
Gov. Mills	<u> </u>	<u> </u>
Gov. Robertson	x <u> </u>	<u> </u>
Gov. Balderston	x <u> </u>	<u> </u>
Gov. Shepardson	x <u> </u>	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, January 15, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Connell, Controller
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Chase, Assistant General Counsel
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Hill, Assistant to the Secretary
Mr. Kakalec, Budget and Planning Assistant,
Office of the Controller

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of San Francisco approving the establishment without change by that Bank on January 14, 1959, of the rates on discounts and advances in its existing schedule.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to the Chemical Corn Exchange Bank, New York, New York, approving the establishment of a branch in Rego Park. (For transmittal through the Federal Reserve Bank of New York)

Item No.

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Item No.

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Letter to the Columbus Bank and Trust Company, Columbus, Georgia, approving the establishment of a branch in temporary quarters near the intersection of Benning Drive and Victory Highway. (For transmittal through the Federal Reserve Bank of Atlanta)

Request of Mr. Kirkman. On the basis of incomplete information, Counsel for the Federal Reserve Bank of Philadelphia rendered the opinion in 1953 that service by Mr. Elwood F. Kirkman as an officer and director of both The Boardwalk National Bank, Atlantic City, New Jersey, and The National Bank of Ocean City, Ocean City, New Jersey, was permissible under section 8 of the Clayton Act. However, a more recent review by the Philadelphia Reserve Bank indicated that such service would not be permissible because The Boardwalk National Bank maintained a branch in Somers Point and the corporate limits of that city and Ocean City were found to coincide for a distance of approximately 4,800 feet. A memorandum from Mr. Chase dated January 13, 1959, which had been distributed to the members of the Board along with a draft of letter to the Philadelphia Reserve Bank, indicated that the advice recently given by the Bank to Mr. Kirkman was clearly correct. The proposed letter therefore raised the question whether any useful purpose would be served by acceding to Mr. Kirkman's request for a meeting with representatives of the Board.

Governor Robertson reported that President Bopp of the Federal Reserve Bank of Philadelphia called on the telephone yesterday to say that the situation was embarrassing to him not only because of the erroneous

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opinion originally given by Counsel for the Reserve Bank but also because Mr. Kirkman had been told by Vice President Campbell that a hearing would be granted to him in Washington before a decision was made. This indication had been given by Mr. Campbell due to a misunderstanding following discussion of the matter with a member of the Board's staff.

Governor Robertson said that in the circumstances he felt the Board was obliged to afford Mr. Kirkman an opportunity to appear, and the question was whether the Board wished to designate one of its members to meet with him.

Governor Balderston commented that the reversal of the 1953 opinion had occasioned some feeling on the part of Mr. Kirkman. Since the more recent opinion had been given just prior to the retirement of Vice President Hill, he felt that the circumstances might lend themselves to erroneous interpretation and that it would be desirable for the Board to accede to the request for a meeting.

Accordingly, in consideration of the history of the matter, it was agreed to invite Mr. Kirkman to present his views to available members of the Board on a mutually convenient date.

Secretary's Note: Pursuant to this understanding, arrangements were made for Mr. Kirkman to meet with members of the Board at 3:00 p.m. on Thursday, January 22, 1959.

Meeting with Mr. Sottile. With further reference to his comment at the meeting on Tuesday, January 13, that Mr. James Sottile, Jr.,

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President of the Pan American Bank of Miami, Miami, Florida, had been endeavoring to reach him on the telephone, Governor Robertson said it had now developed that Mr. Sottile would like to come to Washington, accompanied by Mr. Louis Sedlacek and General Sterling Wood, to discuss a program intended to improve the bank's capital position. After speaking to the Chairman, Governor Robertson said, he suggested to Mr. Sottile a meeting with members of the Board on Monday, January 19, at 3:00 p.m. Subsequently, Mr. Sedlacek called on the telephone to clarify the terms of reference of the meeting, and he (Governor Robertson) expressed the view, with which Mr. Sedlacek agreed, that discussion should be limited to the plan for augmenting capital.

No objection was indicated to proceeding on the basis stated by Governor Robertson.

Mr. Chase then withdrew from the meeting.

Budget overexpenditures. There had been circulated to the members of the Board under date of December 30, 1958, a memorandum from the Board's Controller transmitting requests from the respective Divisions for approval of expenditures in various account classifications in excess of the 1958 budget. These requests had been submitted pursuant to the Statement of Budgetary Principles and Procedures, as revised July 28, 1958, and it was the recommendation of the Controller that they be approved.

Governor Shepardson stated that he had gone over the memorandum and attached requests and that the overexpenditures of an unusual nature

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appeared to have resulted from approvals given during the course of the year by the Board or by him on behalf of the Board. He said that he concurred in the Controller's recommendation.

Mr. Connell commented that expenditures during 1958 amounted to about \$5.9 million, compared with a budget of \$6.3 million, the under-expenditure having been attributable principally to the decision to rent rather than to buy an electronic computer. The requests from the several Divisions were occasioned by account overexpenditures totaling approximately \$420,000, of which about \$278,000 was accounted for by salary adjustments resulting from the general pay increase which became effective on a retroactive basis to January 12, 1958. Of the remainder, a large part was attributable to special projects such as the section 9 proceeding involving a State member bank in Salt Lake City, Utah, the small business financing study, and the renovation of the Board Room.

Mr. Connell stated that his office was in the process of closing the books for 1958 and within the near future would submit to the Board a memorandum containing a full statement of expenditures for the year in relation to the 1958 budget.

Thereupon, the recommendation contained in the Controller's memorandum was approved unanimously.

Messrs. Connell and Kakalec then withdrew from the meeting.

Renewal of gold loan to Bolivia (Item No. 3). Mr. Marget reported that the New York Reserve Bank anticipated receiving from the Central Bank

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of Bolivia a request for a one-month renewal of the gold loan of \$600,000 which was approved by the Board on September 22, 1958. Unless the Board of Governors should express a negative view, he said, the officers of the Bank intended to recommend to the Board of Directors at its meeting today that the anticipated request be granted. It was understood that the Central Bank of Bolivia was negotiating for a loan from a United States commercial bank, the proceeds of which would be used in part to repay the Federal Reserve loan on gold, but it would not be possible to complete the negotiations prior to the maturity date of the gold loan.

In commenting on the matter, Mr. Marget reviewed financial developments in Bolivia, including the progress made by that country on a stabilization program undertaken in cooperation with the International Monetary Fund. It was his recommendation that the Board of Governors authorize renewal of the gold loan, assuming that such a request was received and favorable action was taken by the Board of Directors of the Reserve Bank.

In response to a question by the Chairman, Governor Mills, who had expressed certain reservations about the making of the gold loan originally, stated that in view of the negotiations in process which would provide for repayment, he felt that renewal of the loan would be in order.

Thereupon, Mr. Marget's recommendation was approved unanimously.

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Secretary's Note: Later in the day a telegram was received from the New York Reserve Bank indicating that its Board of Directors had authorized a one-month renewal of the gold loan if an extension should be requested from the Central Bank of Bolivia. Accordingly, the telegram of which a copy is attached as Item No. 3 was sent to the Federal Reserve Bank of New York.

Messrs. Marget, Furth, and Hill then withdrew from the meeting.

Problem banks. Pursuant to the understanding at the meeting on Tuesday, January 13, there was a further discussion of the memorandum from the Division of Examinations dated November 24, 1958, with respect to State member banks on the problem list as of October 31, 1958. Mr. Benner reviewed the 13 banks that had been in the problem category for more than a year but less than five years, and also the 17 banks that were added to the list during the twelve-month period prior to October 31, 1958. In summarizing, he and Mr. Masters commented that most of the banks were showing improvement under supervisory pressure, one or two of them had already been removed from the problem list, and others probably would be removed within the next few months.

There followed discussion with respect to the recent issuance of preferred stock by a State member bank in Chicago, as mentioned at the January 13 meeting, in relation to the issues involved in the suit filed against the Board on that date by The Michigan Bank, Detroit, Michigan.

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Center for Latin American Monetary Studies (Item No. 4). As recommended in a memorandum from Mr. Marget dated January 12, 1959, the Board approved a letter to the Center for Latin American Monetary Studies, of which a copy is attached as Item No. 4, designating Mr. Yves Maroni to give lectures on the Federal Reserve System at the sessions of the Center to be held in Mexico City this summer. The request from the Center contemplated lectures extending over a period of approximately one week.

The meeting then adjourned.


Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Transfer

Mary B. McKee, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in her basic annual salary at the rate of \$3,755, effective January 15, 1959.

Acceptance of resignation

Catherine Anne Wright, Statistical Assistant, Division of Research and Statistics, effective January 23, 1959.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
1/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1959

Board of Directors,
Chemical Corn Exchange Bank,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch on the southeast corner of Junction Boulevard and 62nd Drive, Rego Park, New York, by Chemical Corn Exchange Bank, New York, New York. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of the State authorities is in effect at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
1/15/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1959



Board of Directors,
Columbus Bank and Trust Company,
Columbus, Georgia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors approves the establishment of a branch in temporary quarters on Benning Drive, one and one-half blocks north of the intersection of Benning Drive and Victory Highway, Columbus, Georgia, by Columbus Bank and Trust Company. It is understood that operations at this location will be discontinued simultaneously with the opening of the branch at the northeast intersection of Benning Drive and Victory Highway, as approved by the Board of Governors on December 19, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
1/15/59

January 16, 1959.

EXTER - NEW YORK

Your wire January 15. Provided the Banco Central de Bolivia requests an extension, the Board approves the renewal of a loan on gold by your Bank to the Banco Central de Bolivia of \$600,000 on the following terms and conditions:

- (A) To be collateralized by the pledge of gold under earmark in a form acceptable to the officers of your Bank and having a value of approximately \$692,000;
- (B) To mature in one month with option to repay before maturity;
- (C) To bear interest at the discount rate of your Bank in effect on the date on which such loan is renewed.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
1/15/59

OFFICE OF THE CHAIRMAN

January 16, 1959

AIR MAIL

Mr. Javier Marquez, Director,
Center for Latin American
Monetary Studies,
San Juan de Letran No. 2- Piso 32,
Mexico 1, D. F.

Dear Javier:

Further reference is made to your letter of November 28, 1958, in which you requested that we provide someone again this year to give lectures on the Federal Reserve System. I am glad to inform you that Mr. Yves Maroni has been designated for this task. Mr. Maroni is the senior economist in the Latin American Section of the Division of International Finance, has a good command of Spanish, and has had teaching experience in addition to his work here at the Board.

Consideration is also being given to the possibility of having System personnel attend the Center as participants again this year, and we expect to be able to give you definite information on this matter some time in February.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.